United Nations A/60/7/Add.11

General Assembly

Distr.: General
30 November 2005

Original: English

Sixtieth session
Agenda items 121, 124, 134, 135 and 136

Financial reports and audited financial statements, and reports of the Board of Auditors

Proposed programme budget for the biennium 2006-2007

Financing of the International Criminal Tribunal for the Prosecution of Persons Responsible for Genocide and Other Serious Violations of International Humanitarian Law Committed in the Territory of Rwanda and Rwandan Citizens Responsible for Genocide and Other Such Violations Committed in the Territory of Neighbouring States between 1 January and 31 December 1994

Financing of the International Tribunal for the Prosecution of Persons Responsible for Serious Violations of International Humanitarian Law Committed in the Territory of the Former Yugoslavia since 1991

Administrative and budgetary aspects of the financing of the United Nations peacekeeping operations

Liabilities and proposed funding for after-service health benefits

Twelfth report of the Advisory Committee on Administrative and Budgetary Questions

1. The Advisory Committee on Administrative and Budgetary Questions has considered the report of the Secretary-General in document A/60/450 on the issue of the United Nations liability related to after-service health insurance benefits. During its consideration of the Secretary-General's report, the Committee met with the Controller and other representatives of the Secretary-General, who provided additional information on the issue.

2. The Advisory Committee recalls that during its review of the proposed programme budget for the biennium 1998-1999 (A/52/7/Rev.1), it was aware of the urgent need to address the issue of the United Nations liability related to after-service health insurance benefits and recommended that the long-term implications

05-62380 (E) 011205

of its growth and the impact on the Organization be addressed by the Secretary-General on a system-wide basis; the recommendation was endorsed by the General Assembly in its resolution 52/220. The Board of Auditors, in its concise summary of principal findings, conclusions and recommendations (A/57/201), emphasized that it was urgent for all organizations to recognize end-of-service benefit liabilities and to disclose them in their financial statements. The General Assembly, in its resolution 58/249 A, requested the Secretary-General to report on the full extent of unfunded staff termination and post-service liabilities in the United Nations and its funds and programmes and to propose measures that would ensure progress towards fully funding such liabilities. **The Committee welcomes the Secretary-General's report; however, it regrets that the preparation of the report took more than seven years after the Committee made its initial recommendation on the issue, in 1997.**

3. The Secretary-General indicates that the value of the accrued after-service health insurance liability as at 31 December 2003 is estimated at a total of $4,022.9 million for the United Nations and the organizations of the common system. Currently, most of the organizations in the United Nations common system account for after-service health benefits on a "pay-as-you-go" or cash basis. In many cases these expenditures are not necessarily identified separately within staff costs. In other cases the expenditures are specifically identified. A number of organizations have now decided, given the significance of the liability involved, to recognize a liability in the accounts for after-service health insurance benefits and, at the same time, identify sources from which the liability can be funded.

4. Liabilities related to after-service health benefits and other end-of-service entitlements are currently disclosed in the notes to the financial statements, the acceptable practice under the United Nations system accounting standards; other accounting standards promulgated by professional accounting standards boards, such as the International Financial Reporting Standards, prescribe full accrual accounting, requiring that liabilities associated with post-retirement benefits be recognized and reported on the balance sheet of financial statements and that the annual accrual of future benefits for active employees be expensed each year until employees become eligible for such benefits.

5. Paragraphs 6 to 9 of the report of the Secretary-General contain background information on after-service health insurance. The Committee observes that the United Nations health insurance programmes provide for premium-sharing between the United Nations and plan participants (active and retired), in accordance with General Assembly resolutions 1095 (XI) of 27 February 1957, 38/235 of 20 December 1983 and 41/209 of 11 December 1986. Resources for after-service health insurance subsidy for retirees enrolled in United Nations health insurance plans are appropriated under the Special expenses section of the programme budget. The amounts appropriated biennially do not include funding for the accrued liability for after-service health insurance benefits earned by employees during active service.

6. The Advisory Committee notes that at the United Nations, the average after-service health insurance enrolment increased from 2,672 retirees during the biennium 1984-1985 to 7,105 by the end of 2003 and that the organizational subsidy for retiree medical benefits increased from $6.9 million to $67.7 million during the same period. The difference between the two rates of growth is attributable

principally to the escalation of the costs of medical treatment and increases in the rates of utilization of medical services (see A/60/450, annex IV, para. 9).

7. The Secretary-General indicates that the present value as at 31 December 2003 of the accrued after-service health insurance liability of future benefits (net of retiree contributions) for the United Nations is estimated at $1,484.9 million. **While this estimate was taken by the Secretary-General as an important reference point for analysis and subsequent conclusions reflected in his report, the underlying methodology for arriving at the estimate has not been clearly explained. Moreover, the Advisory Committee observes that since the end of 2003 potential after-service health insurance liabilities have no doubt escalated. The Committee stresses that updated data should be made available to the General Assembly before any decision on the matter is taken.**

8. **The Advisory Committee requests that detailed information be provided to the Fifth Committee regarding how the provisions for current retirees ($770 million) and active employees currently eligible to retire with after-service health insurance benefits ($321.5 million) were derived. As regards the estimated provision of $393.4 million for liabilities related to active employees who are not yet eligible to retire with after-service health insurance benefits, the Committee questions the inclusion of such a provision in the total estimate of $1,484.9 million since the notion underlying the provision is not clear — some of the active employees will retire without ever acquiring eligibility for after-service health insurance benefits, while others may choose not to participate in after-service health insurance.**

9. In view of the rising level of after-service health insurance liabilities, the Secretary-General indicates that a dedicated long-term funding strategy is required that would provide predictable yet flexible annual contribution levels which support the process of ensuring that adequate funds are put aside on a regular basis to meet the costs of current participants and future benefit liabilities. As a part of this strategy, funding sources must be identified to ensure that sufficient resources are available to meet all liabilities as they fall due in the future, while maintaining the Organization's annual funding at as constant a rate as possible. The funding strategy described in paragraph 16 of the report of the Secretary-General provides for one-time funding of $350 million and annual long-term funding measures, as follows:

One-time funding ($350 million)	*Annual funding*
(i) Transfer of $250 million in unencumbered balances from fiscal year 2005 and savings on cancellation of prior-period obligations under peacekeeping operations	(i) Continue with current funding arrangements for health-benefit costs relating to current retirees with amounts appropriated from the Special expenses section of the United Nations regular budget
(ii) Transfer of $25 million from the authorized retained surplus of the United Nations regular budget	(ii) Establish a charge equivalent to 4 per cent of salary costs on all budgets to be applied against the cost of salaries paid to staff

One-time funding ($350 million)	*Annual funding*
(iii) Transfer of $43 million of income from the medical and dental reserves, leaving reserve balances totalling about $97.1 million to meet future and pending claims	(iii) Utilize unspent balance of final appropriations, if any, under the United Nations regular budget
(iv) Transfer of $32 million from the Compensation Fund, leaving about $31.5 million to meet future and pending claims	(iv) Utilize the excess of actual miscellaneous income over budget estimates, if any, under the United Nations regular budget
	(v) Utilize the savings in the liquidation of prior-periods obligations

10. The Advisory Committee was informed, upon enquiry, that the amount of $250 million proposed for the transfer from accounts of peacekeeping operations represents approximately half of the total amount of unencumbered balances and savings for all active peacekeeping missions as at the close of the peacekeeping fiscal year on 30 June 2005. **Although it is acknowledged that peacekeeping budgets should fund their share of the costs of after-service health insurance, it is not clear to the Committee why active peacekeeping missions should fund an accrued liability attributable at least partially to peacekeeping operations that have closed (see also para. 15 below).** Moreover, the Secretariat was unable to explain how the proposed amount was arrived at.

11. With regard to the proposal to transfer $25 million from the authorized retained surplus of the United Nations regular budget, the Advisory Committee was informed that the General Assembly, in various resolutions, had authorized the retention of $214.7 million of surplus and also authorized write-offs and transfers of $146.4 million, which reduced the retained surplus balance to $68.3 million. The write-offs and transfers were authorized to liquidate debts for unpaid contributions, to establish the Peacekeeping Reserve Fund and to write off outstanding loans. **The Committee finds little rationale or justification for the figure of $25 million; the Secretary-General should be requested to provide a justification for the calculation of the amount as well as to report on all options with regard to its utilization, including its return to Member States, as provided for by financial regulation 5.3.**

12. **The Advisory Committee has no objection to the transfer of $43 million of income from the medical and dental reserves provided that an assurance can be given to the General Assembly that it is not foreseen that this amount will be needed in the future to meet medical and dental costs.** The Committee was informed, upon enquiry, that the cumulative balance of the medical and dental reserve currently stands at about $140.1 million and consists of staff and organization contributions across all fund types, as well as investment income. The proposal with regard to the $43 million reflects the transfer of the investment income earned on these special reserves in the last five bienniums (1996-2005). This period was chosen because it aligns with the initial recommendation of the

Committee to review the long-term implications of the growth of after-service health insurance liabilities.

13. **The Advisory Committee has no objection to the transfer of $32 million from the Compensation Fund, with a similar proviso to that expressed for the medical and dental reserves.** In this connection, the Committee was informed, upon enquiry, that a special reserve account had been set up in 1985 to receive contributions at the rate of 1 per cent of extrabudgetary payroll and to provide for compensation payments under appendix D of the Staff Rules for staff financed by extrabudgetary funds; income from the investment of accumulated funds in this reserve was to meet part of the costs of the Organization's share of contributions to after-service health insurance. Beginning in July 2000, a similar reserve to provide for compensation payments was set up for staff of peacekeeping operations. The Committee was also informed that the cumulative balance of these reserves at present stands at about $63.5 million. The $32 million proposed for transfer consists of an estimated $16 million in cumulative investment income plus an additional $16 million of the cumulative surplus from contributions. The Committee was informed that subsequent to the issuance of the Secretary-General's report, $7.5 million in cumulative interest was earmarked to be used to meet after-service health insurance extrabudgetary requirements for the 2004-2005 biennium.

14. The Advisory Committee points out that, should the General Assembly decide to establish a reserve that would accumulate after-service health insurance funds, the question of how to best manage and invest after-service health insurance funds would arise. The Committee was informed, upon enquiry, that after-service health insurance reserve funds would initially be invested in short-term securities and cash-flow requirements would be developed; discussions would also be initiated with the United Nations Joint Staff Pension Fund regarding the potential use of the investment management services of the Pension Fund for an after-service health insurance reserve. **The Committee trusts that information on a detailed investment strategy will be provided to the General Assembly through the Advisory Committee, should the General Assembly authorize the establishment of after-service health insurance reserve funds.**

15. With regard to the proposal to continue biennial appropriations to cover after-service health insurance subsidy payments in respect of current participants, the Advisory Committee was informed that a practical mechanism has not been available to determine the funding sources to which costs for current retirees were charged over their active careers with the Organization. The Secretariat estimates that 10 to 15 per cent of after-service health insurance costs relate to retirees whose salary costs were charged to extrabudgetary (including peacekeeping) accounts immediately prior to retirement, although the fund to which a staff member's final years of service is charged is not necessarily indicative of the fund or fund type to which the staff member's costs were charged over his or her overall period of United Nations service. This, in the view of the Secretariat, does not make the allocation of after-service health insurance costs for current retirees across differing funding sources practical. Therefore, the Secretary-General proposes to continue biennial appropriations to cover after-service health insurance subsidy payments in respect of current participants. **The Committee has no objection to the Secretary-General's proposal.**

16. In connection with the proposal to establish a charge equivalent to 4 per cent of salary costs on all budgets to be applied against the cost of salaries paid to staff, the Advisory Committee was informed that the application of a uniform percentage on salary costs across all budgets would result in the regular budget and extrabudgetary and peacekeeping funds beginning to fund future after-service health insurance costs in direct proportion to their active salary costs. As a result, the after-service health insurance reserve would receive funding from all funding sources to which costs for staff who will ultimately receive benefits have been charged. **While the Committee agrees in principle with the proposal to charge a certain percentage of salary costs as a means of building a fund for after-service health insurance payments, it is of the view that further and more detailed analysis should be undertaken before it can recommend a specific percentage. The Committee is also of the view that special attention should be paid to such issues as the relationship between an additional charge on salary costs and programme support costs applied to extrabudgetary activities.**

17. **With regard to the proposals on the utilization of savings under the regular budget, the Advisory Committee points out that planning in advance to systematically use savings as part of a funding mechanism for after-service health insurance does not appear to be in line with the best management practices, as it is not transparent and may encourage deliberate overbudgeting in order to realize savings.**

18. **Moreover, it should be borne in mind that pursuant to General Assembly resolution 56/237, savings achieved as a result of efficiency gains are supposed to be directed to the Development Account.**

19. The Advisory Committee observes from paragraph 19 of the report of the Secretary-General that he proposes revisions to the after-service health insurance programme aimed at reducing future costs of after-service health benefits. **The Committee recommends approval of the proposals contained in paragraph 19 of the report of the Secretary-General.**

20. In paragraphs 20 to 22 of his report, the Secretary-General proposes a number of measures related to the funding of current and future after-service health insurance liabilities of other entities of the United Nations. **The Advisory Committee's observations and recommendations in the paragraphs above on the Secretary-General's proposals in respect of the United Nations, should also apply to the proposals related to such entities.**